

April 28, 2000

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
The Portals  
445 Twelfth Street, S.W.  
Washington, D.C. 20554

**Re:    *GTE Corp. and Bell Atlantic Corp., CC Docket No. 98-184***

Dear Ms. Salas:

Bell Atlantic and GTE are modifying and making even stronger our proposal to spin off GTE Internetworking (now known as Genuity). Our previous proposal was submitted in Exhibits A, B, and C of my letter of April 3, 2000. The new proposal is set forth in the attached revised Exhibits A, B, and C.

The modified proposal further strengthens our case in four significant respects:

1. Following Genuity's IPO, the public will own at least 90% of Genuity and we will own no more than 10%. NewCo's option to go beyond 10% arises only after NewCo eliminates applicable section 271 restrictions as to 50% of Bell Atlantic's lines. Prior to achieving the 50% threshold, our option will entitle us to no more than a 10% interest in Genuity. This ownership structure becomes *permanent* if we fail to achieve the 50% threshold within 5 years.

2. Even after NewCo's option to go beyond a 10% interest arises, our ability to exercise that option in order to own and operate Genuity remains contingent on elimination of all section 271 restrictions. If we sell the option before achieving a 95% section 271 threshold, we receive none of Genuity's appreciation (other than on our up-to-10% interest), and all we receive in return is the value of our initial investment plus an S&P 500 return.

3. The investor safeguards have been relaxed even further to ensure that Genuity may carry out its business plan as described in its registration statement without seeking approvals from NewCo.

4. Within 90 days after the IPO, a majority of the board of directors of Genuity will be appointed by Genuity's own independent directors, not by GTE or NewCo. All the directors (except the one director appointed by NewCo) will stand for reelection within nine months of the IPO.

Sincerely,

William P. Barr

cc: Katherine Brown  
Dorothy Attwood  
Robert Atkinson  
Rebecca Beynon  
James Bird  
Michelle Carey  
Kyle Dixon  
Jordan Goldstein  
Johanna Mikes  
Paula Silberthau  
Lawrence Strickling  
Sarah Whitesell  
Christopher Wright

## **EXHIBIT A**

### **TRANSFER OF GENUITY TO INDEPENDENT PUBLIC CORPORATION**

Bell Atlantic/GTE will eliminate the section 271 issue that could arise from Bell Atlantic's ownership of Genuity (formerly known as GTE Internetworking) through the following structure:

#### DataCo Publicly Owned and Controlled; NewCo Holds Option

Genuity's existing nationwide data business will be established as a separate corporation ("DataCo") that will be publicly owned and controlled. Through an initial public offering, or "IPO," public shareholders will purchase shares of DataCo Class A common stock, which will initially carry 90.5% of the voting rights and the right to receive 90.5% of any dividends or other distributions. In exchange for the transfer of its ownership of Genuity, the merged Bell Atlantic/GTE ("NewCo") will receive shares of Class B stock of DataCo that will have 9.5% of the voting rights and the right to receive 9.5% of any dividends or other distributions. NewCo will also have the option in the form of conversion rights to increase its ownership in the future, contingent upon its elimination of section 271 restrictions applicable to NewCo's operation of DataCo's business.

The Bell Atlantic and GTE merger would close following the IPO.

Subject to normal corporate requirements and the investor safeguards described below, at any time after the IPO, DataCo will have the ability to issue additional Class A shares (for example, to fund acquisitions or major business initiatives), and it is expected that DataCo will do so. In the event that additional Class A shares are issued and NewCo has met the 50% section 271 relief threshold described below, the conversion of the Class B shares will dilute NewCo's resulting economic interest in DataCo, but the Class C shares into which the Class B shares are convertible have enhanced voting rights that are likely to give NewCo voting control following conversion even if additional shares have been issued.

Until NewCo exercises its option, DataCo will be independent of NewCo. DataCo will have an independent board of directors that is periodically elected by the voting shareholders consistent with the requirements of applicable corporation laws. Within 90 days after the IPO, the board will consist of 13 members, a majority of whom will be individuals who were not selected prior to the IPO. In addition, as soon as practical, and in any event within nine months of the IPO, all directors except one elected by a class vote of the Class B shares will stand for election at a meeting of the public shareholders. The director elected by a class vote of the Class B shares will not be eligible to serve as chairman. Exhibit B, appended hereto, describes more fully how the board will be constituted, elected, and expanded.

The board and officers of DataCo will owe fiduciary duties to the public shareholders. Incentive compensation for DataCo's managers will be tied to the performance of DataCo and the value of DataCo's publicly traded stock, not to the financial performance or stock value of

NewCo. The initial source of financing for DataCo will be the proceeds from the sale of Class A stock in the IPO. Any additional funding required by DataCo during the interim would be raised from the public markets, possibly by issuing additional Class A shares, by issuing debt to the public, or by arm's-length commercial loans. During the period NewCo holds Class B shares, if NewCo were to choose to make such loans to DataCo, NewCo could provide no more than 25% of the aggregate debt financing that DataCo is permitted to incur.

NewCo's interests as a minority investor and holder of an option to acquire a controlling interest in the future will be protected by certain reasonable investor safeguards, described in Exhibit C appended hereto. These are both typical of the rights commonly held by option holders or other prospective acquirers and modeled on investor protections that have regularly been permitted by the Commission. These will include the right to approve certain fundamental business changes that adversely impact the value of NewCo's minority investment and conversion rights, including a change in control of DataCo or the sale of a significant portion of its assets. These investor safeguards will remain in effect only until NewCo converts its Class B shares. (See Exhibit C.)

The Genuity business transferred to DataCo provides Internet backbone and related IP services and does not provide traditional switched long-distance voice service. DataCo's business plans do not contemplate acquisition of a traditional long-distance voice service provider. NewCo would not consent to DataCo's acquisition of a traditional long-distance voice service provider unless and until the Commission has reviewed and approved such acquisition.

#### Joint Marketing Where Permitted

This proposal will fully preserve the integrity and competitiveness of Genuity's existing business while also preserving NewCo's ability (contingent on elimination of applicable section 271 restrictions) eventually to acquire control of DataCo and bring to market the full range of long-term Internet and data benefits promised by the merger. In the meantime, this solution will enable customers to begin realizing immediately some of these important data benefits, since a significant portion of DataCo's business will be outside the Bell Atlantic region or in in-region states where Bell Atlantic has eliminated applicable section 271 restrictions. Accordingly, during the period before the option is exercised, NewCo will market DataCo services (or the two companies will market their services jointly) as and where permitted by law. For example, in New York, where Bell Atlantic has already received section 271 approval, NewCo and DataCo will jointly market DataCo's Internet connectivity services.

This arrangement is provided for in a "Purchase, Resale, and Marketing Agreement," submitted separately. Both GTE and Bell Atlantic are legally free to enter into this kind of commercial relationship today with a similarly situated company. The Agreement provides that NewCo will not provide or jointly market any interLATA DataCo service in any state where NewCo does not have interLATA authority. The Agreement is non-exclusive; either company may purchase from or sell to others.

### Transitional Support Services

All commercial interactions between NewCo and DataCo will be conducted pursuant to commercially reasonable contracts. This is consistent with the fact that DataCo and NewCo will each be independent public corporations whose directors and officers will owe duties of care and loyalty to their respective shareholders. These contracts will encompass the marketing arrangements discussed above as well as certain administrative support services that DataCo may require from NewCo. (See “Commercial Contracts Between NewCo and DataCo,” submitted separately.)

These contracts have a one-year term, but are terminable at any time by DataCo without penalty and may only be renewed by the parties after submission to the Commission. They are typical of the commercially reasonable transitional arrangements that would be needed if DataCo were sold to a third party today.

### Independent Auditor

NewCo will hire an independent auditor, acceptable to the Chief of the Common Carrier Bureau, to monitor NewCo’s ongoing compliance with the terms of this Exhibit A.

### Principles Governing Conversion

NewCo’s conversion rights will be exercisable within five years from the closing of the merger. To exercise its conversion rights so as to own and control DataCo, NewCo must be able to operate DataCo in compliance with applicable section 271 restrictions. NewCo will thus have five years to eliminate those interLATA restrictions. The Commission shall have discretion to toll or extend the running of this five-year period to account for intervening events that delay elimination of section 271 restrictions.

A. No Conversion Right Above 10% Equity Interest If Threshold Is Not Met. If NewCo has not eliminated section 271 restrictions applicable to NewCo’s operation of DataCo’s business as to 50% or more of total Bell Atlantic lines,<sup>1</sup> NewCo shall not have a right to convert into more than a 10% equity interest. Accordingly, NewCo would not be able to sell an interest in excess of 10% for value to a third party. If at any time before meeting this 50% threshold NewCo converts its Class B shares, then NewCo’s Class B shares would only be convertible into a number of Class A shares representing 10% of the total outstanding shares of DataCo stock.

---

<sup>1</sup> For purposes of these principles governing conversion and the rules below governing proceeds from sale of shares, “total Bell Atlantic lines” shall equal the sum of the number of lines for each of the Bell Atlantic in-region states, and the number of lines for each Bell Atlantic state shall be the number of total billable access lines for the Bell Atlantic operating company in that state in Bell Atlantic’s 1999 ARMIS reports, except that because the entry for Bell Atlantic–New York Telephone includes Bell Atlantic lines in both New York and Connecticut, the number of lines for Connecticut shall be 54,087 and the number for New York shall be 11,088,712.

B. Conversion Rights Above 10% Equity Interest. Subject to the rule below governing proceeds from sale of shares, NewCo's Class B shares will be convertible into Class C shares that will represent 80% of the outstanding shares following conversion (assuming no additional Class A shares are issued in the interim) if, within five years from the closing of the merger, NewCo has eliminated section 271 restrictions applicable to NewCo's operation of DataCo's business as to 50% or more of total Bell Atlantic lines. (The 80% amount will be reduced when DataCo issues additional Class A shares.)

If NewCo has eliminated such section 271 restrictions as to at least 95% of total Bell Atlantic lines, NewCo may exercise its conversion rights for the purpose of immediately bringing DataCo's business into compliance with section 271; provided, however, that (as set forth in the Purchase, Resale, and Marketing Agreement) DataCo will agree to modify, upon conversion, its operations in a particular state or states only if (a) those states involve no more than 3% of DataCo's revenue in the aggregate and (b) NewCo reimburses DataCo for its costs of coming into compliance with section 271. NewCo will notify the Commission 90 days in advance if it requests DataCo to make such modifications and submit to the Commission a plan for bringing DataCo into compliance with section 271.

If, by the end of five years, NewCo has eliminated such restrictions as to at least 90% of Bell Atlantic lines (or as to such number of lines which, together with the number of lines in any single Bell Atlantic state in which such restrictions have not been eliminated, would equal 95% of total Bell Atlantic lines), NewCo may file a petition with the Commission requesting relief, in the event of which filing NewCo will be permitted one additional year (which may be extended at the discretion of the Commission) in which to eliminate the remaining restrictions and exercise its conversion rights. If, by the end of the conversion period, litigation is pending over whether NewCo has eliminated such restrictions as to certain lines, and if a court determines after the end of the conversion period that NewCo has eliminated such restrictions as to those lines, then for purposes of these provisions NewCo shall be deemed to have eliminated those restrictions within the conversion period.

Subject to the rules below governing proceeds, NewCo will have the right at any time after it has eliminated section 271 restrictions applicable to NewCo's operation of DataCo's business as to more than 50% of total Bell Atlantic lines to dispose of all or part of its Class B shares, or to exercise its conversion rights as part of a transaction by which it immediately disposes of all or part of its interest in DataCo so that its post-conversion interest in DataCo does not exceed a 10% equity interest. To the extent Class B shares are purchased by someone who is not subject to section 271 restrictions, that purchaser would be free to convert those Class B shares immediately. A purchaser of the Class B shares could convert those shares only into Class A shares, which do not have enhanced voting rights. If at the time NewCo's conversion period would otherwise expire, NewCo has a pending contract to sell its Class B shares to such a purchaser, the conversion period will be extended to allow for completion of the sale and the purchaser's immediate conversion.

C. Conversion Right in Order to Comply with Order. Subject to the rules governing proceeds from sale of shares below but notwithstanding any other provision, if at any time before NewCo meets the 50% threshold a court or agency rules that NewCo's interest in DataCo results

in a violation of section 271, NewCo's Class B shares shall immediately be convertible into shares representing 80% of the outstanding shares following conversion (assuming no dilution), but NewCo itself shall not be able to convert the shares beyond a 10% interest (except in conjunction with an immediate disposition) but shall be given a reasonable time to dispose of the shares insofar as they are convertible in excess of a 10% interest.

#### Rules Governing Proceeds From Sale of Shares

If NewCo sells its shares (1) after eliminating section 271 restrictions applicable to NewCo's operation of DataCo's business as to at least 50% but less than 95% of total Bell Atlantic lines or (2) before reaching this 50% section 271 threshold if in response to a court or agency ruling that NewCo's interest in DataCo results in a violation of section 271, NewCo will keep all of the proceeds attributable to a 10% equity interest, but will forgo that portion of the remaining proceeds representing the gain beyond the return that it would have earned on an investment in the S&P 500 Index. These rules will be applied on a pro rata basis to a sale of less than all of NewCo's shares in DataCo.

Specifically, NewCo would apply the following methodology:

(1) NewCo would determine its "net proceeds" by: (a) subtracting from its gross sales proceeds an amount equal to 10% of the value of DataCo (calculated based on the sales price of the shares sold by NewCo); and (b) subtracting from this remainder an amount equal to what NewCo would have received if it had taken the amount of its initial investment above its 10% interest and invested it, at the time of closing, in the S&P 500 Index. (The initial value of NewCo's investment in DataCo will be based on the offering price of Class A shares in the IPO.)

(2) NewCo would pay to the general fund of the U.S. Treasury an amount equal to its after-tax net proceeds, or such lesser amount as the FCC in its discretion may determine.

If NewCo sells its shares after eliminating such section 271 restrictions as to at least 95% of total Bell Atlantic lines, NewCo will keep the entire proceeds from the sale of its shares.

## **EXHIBIT B**

### **DATACo BOARD**

- Effective at the time of the IPO, there will be six members of the Board of Directors of DataCo:
  - Four will be independent directors with no prior relationship with GTE or Bell Atlantic.
  - The fifth will be the CEO of DataCo.
  - The sixth will be the representative elected by the holders of the Class B shares; however, this director will abstain in any vote prior to the time when there are at least ten directors as described below and will at no time be eligible to serve as chairman.
- Within the 90 days following the IPO, the four independent directors will choose seven additional directors who have no prior relationship with GTE or Bell Atlantic, bringing the total number of independent directors to eleven and causing seven out of the thirteen directors to be persons selected following the IPO.
- The directors (other than the director chosen by the holders of the Class B shares) will be assigned to three classes and will stand for election at a meeting of shareholders held as soon as practical, and in any event within nine months of the IPO (the “Initial Shareholder Meeting”). Thereafter, they will stand for reelection as follows:
  - The terms of four Class I directors will expire at the first Annual Meeting of Shareholders of DataCo following the Initial Shareholder Meeting;
  - The terms of four Class II directors will expire at the second Annual Meeting of Shareholders of DataCo following the Initial Shareholder Meeting;
  - The terms of four Class III directors will expire at the third Annual Meeting of Shareholders of DataCo following the Initial Shareholder Meeting;
  - The one director elected by the Class B shareholders will stand for election annually.



- The Board of DataCo will determine the nominees for directors in the class of directors to be elected at each Annual Meeting.

**As a result of the foregoing, at the end of ninety days, a majority of the members of the board will be individuals who were not selected prior to the IPO, and following the Initial Shareholder Meeting all of the directors except for the member elected by the Class B shares will have been elected by the public shareholders.**

## **EXHIBIT C**

### **INVESTOR SAFEGUARDS**

These investor safeguards shall be in effect only until NewCo converts its Class B shares:

- If at the time NewCo converts its shares, it owns shares at least equal to 70% of DataCo, it shall have the right to purchase from DataCo, at market, a number of shares that will increase its ownership to 80%.
- Class A shares initially contain a provision that: (i) prevents any single holder or group (as defined under SEC rules) from voting more than 20% of the Class A stock; and (ii) if any such person or group acquires over 20% of the Class A stock, the votes represented by the shares in excess of 20% shall be apportioned among the remaining Class A shareholders. This provision will expire upon conversion of a majority of the Class B shares.
- The Class B shareholders shall have the right to elect one member of the Board.
- Class vote of B shareholders required for:
  - Merger, consolidation, sale of all or substantially all assets or similar transactions;
  - Bankruptcy or liquidation;
  - Authorization of additional stock;
  - Amendments to Charter or certain By-law provisions that affect the rights of the Class B shareholders;
  - A material change in the nature or scope of DataCo's business; and
  - Any action that would make it unlawful for NewCo to exercise its conversion right.

- Newco consent required for:
  - Agreements or arrangements that (i) bind or purport to bind NewCo or any of its affiliates or (ii) contain provisions that trigger a default, or provide for a material payment as a result of NewCo's exercise of its conversion right.
  - Declaration of extraordinary dividends or other extraordinary distributions.
  - Issuance of shares, securities convertible into shares or share equivalents ("Shares") except for: (i) Shares issued in connection with acquisitions provided that the aggregate number of Shares issued in connection with acquisitions does not exceed 30% of the shares outstanding at the close of DataCo's initial public offering; (ii) Shares issued to fund operating needs, provided that the aggregate number of Shares issued to fund operating needs does not exceed 5% of the shares outstanding at the close of DataCo's initial public offering; and (iii) Shares issued or granted to employees (including pursuant to benefit plans) provided that the number of Shares issued or granted to employees does not exceed the amount specified in the registration statement for its initial public offering.
  - An acquisition or a series of related acquisitions that equal more than 20% of the fair market value of DataCo's assets or an acquisition or joint venture that is in excess of \$100 million and is not closely related to DataCo's business.
  - A disposition or a series of related dispositions that are in excess of 20% of the fair market value of DataCo's assets.
  - The incurrence of debt in excess of \$11 billion over a five year period, provided that DataCo shall not be permitted to incur more than 35% of such debt in any single year.